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International trade and development

Report of the Secretary-General

Summary

The prolonged post-crisis decline in world trade relative to gross domestic product has been a cause for serious concern. It not only directly affects the development prospects of many countries across the globe, but has also been accompanied by growing questions about openness in terms of trade, immigration and globalization as a whole.

The present report highlights the latest trends in trade, trade policy and the trading system, with a particular focus on addressing the causes of resentment towards trade, on measures for policymakers to ensure that gains from trade are more widely spread and on how the international trading system can respond to these challenges and help to achieve the Sustainable Development Goals of the 2030 Agenda for Sustainable Development. The present report has been prepared by the United Nations Conference on Trade and Development, pursuant to paragraph 29 of General Assembly resolution 71/214.

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I. Introduction

1. In 2015, the global community, under the aegis of the United Nations, adopted the 2030 Agenda for Sustainable Development, which included actions to create an environment conducive for global trade to flourish. This agenda should be taken up as the basis for the construction of future trade policy. Current global economic uncertainties and the need for more inclusive and sustainable development strategies require stronger policy commitments at the national and international levels. This raises key concerns regarding whether existing international trade rules and agreements are adequate for this purpose or must be enhanced. As progress on the sustainable development agenda cannot be delayed, it is important that the trading system improves not only on delivery in terms of economic growth but also on inclusive and sustainable growth, poverty reduction and welfare enhancement.

II. Trends in trade

2. The period 2015-2016 defines an inflexion point in the recent history of world trade towards a "new normal" for the international economy, yet this new normal remains to be defined. After the hyper-globalization of the 1990s and early 2000s, in 2008 and 2009 the world economy suffered one of its harshest recessions in history. Despite quickly rebounding in 2010, the world economy started losing steam thereafter, and hopes for a return to pre-crisis trends were dashed. The price of commodities and, to a lesser extent, manufactured goods declined, causing the nominal value of trade to contract substantially. The volume of trade itself was affected and, for the first time in 15 years, real trade growth dipped below the growth of world gross domestic product (GDP).[1] The present chapter presents the latest trade statistics and highlights the causes of these trends.

A. Driving forces, global trends and regional diversities

3. It is widely recognized that trade is influenced, in the long term, by structural factors such as comparative advantages. In the short term, nevertheless, the main drivers of trade are demand for imports and changes in trade policies. This section reviews the main changes in the effective demand for imports, which has been recently constrained by factors that affect regions differently. Table 1 shows the regional deterioration of demand drivers, after the strong growth rates recorded in 2011 and towards widespread contractions across 2015 and 2016.

[1] See also United Nations Conference on Trade and Development, "Key statistics and trends in international trade 2016: a bad year for world trade?", 2016. Available from: http://unctad.org/en/PublicationsLibrary/ditctab2016d3_en.pdf.

Table 1
Import demand for merchandises by region, 2011-2016

(percentages and annual growth rates based on nominal quarterly values)

	Weight	*Growth rates*					
	2010	*2011*	*2012*	*2013*	*2014*	*2015*	*2016[a]*
World[b, c]	100	19.5	0.9	1.6	0.6	-12.4	-3.3
North America	17	15.4	3.3	0.1	3.3	-4.4	-2.9
South and Central America	4	23.9	3.1	2.9	-3.3	-16.2	-15.2
Europe[d]	38	17.7	-4.3	1.5	1.1	-13.2	0.2
Commonwealth of Independent States	3	31.4	5.8	0.7	-11.1	-33.5	-4.4
Africa	2	21.5	3.7	1.0	2.2	-13.6	-9.9
Middle East	2	14.7	7.1	2.4	2.4	-7.1	-9.7
Asia[c]	32	22.8	4.2	2.0	-0.4	-13.9	-4.9
Developed Asia	6	22.6	4.6	-6.1	-2.0	-18.2	-6.1
Developing Asia	26	22.8	4.2	3.9	-0.1	-13.0	-4.7
China	9	25.2	4.4	7.2	0.5	-14.3	-5.9
Other developing Asia	17	21.6	4.0	2.1	-0.4	-12.2	-4.0

Source: UNCTAD/World Trade Organization "Quarterly world merchandise imports by region and selected economies" database.

[a] Preliminary estimates.

[b] Includes an adjustment for underrecorded intra-European Union imports.

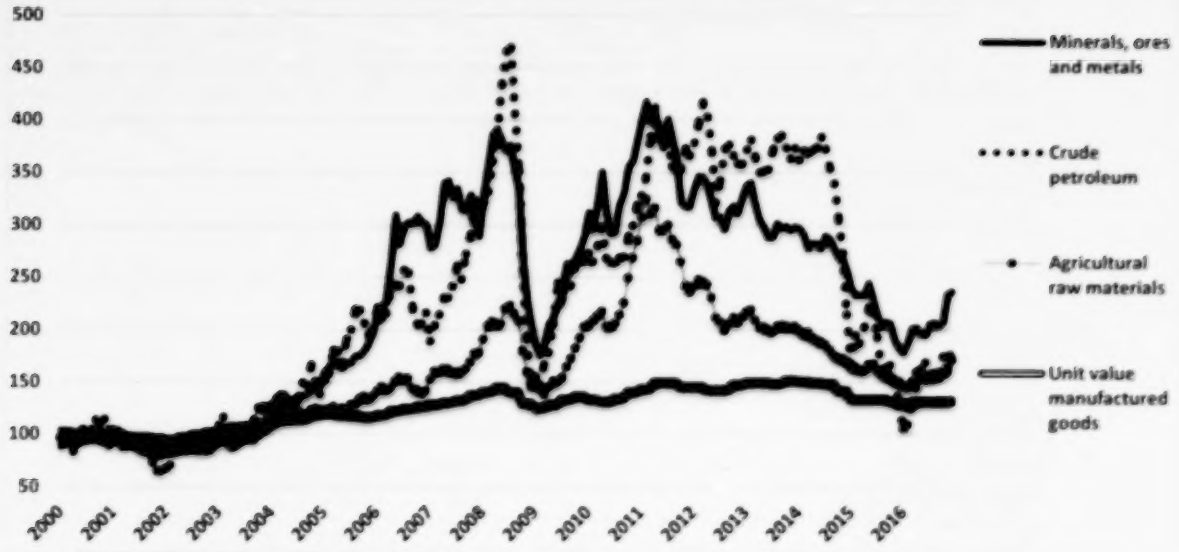
[c] Includes significant imports for re-exports.

4. These trends, especially in developing countries, can be explained by large swings in international commodity prices affecting importers' terms of trade. The long period of sustained price growth from 2003 to 2011, called the commodity super-cycle, was briefly interrupted by the 2008-2009 crisis (see figure 1 below). Prices stalled after 2011 and plunged in 2014 and 2015. In 2016, commodity prices stabilized and showed some recovery at years' end, but remained below 2011 values, especially for oil and minerals. At the end of this cycle, the price of commodities relative to manufactures exported by developed countries remains higher than in the early 2000s. Indeed, the price of manufactures was constrained by the rise of low-cost producers, particularly in Asia, and the productivity gains offered by technology and the spread of global value chains.[2] However, the double-digit drop of commodity prices since 2011 has caused major terms-of-trade shocks for commodity-exporting developing countries, in particular energy exporters (see figure 2 below).[3]

[2] United Nations Conference on Trade and Development, "Global value chains and development", 2013, available from: http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf.

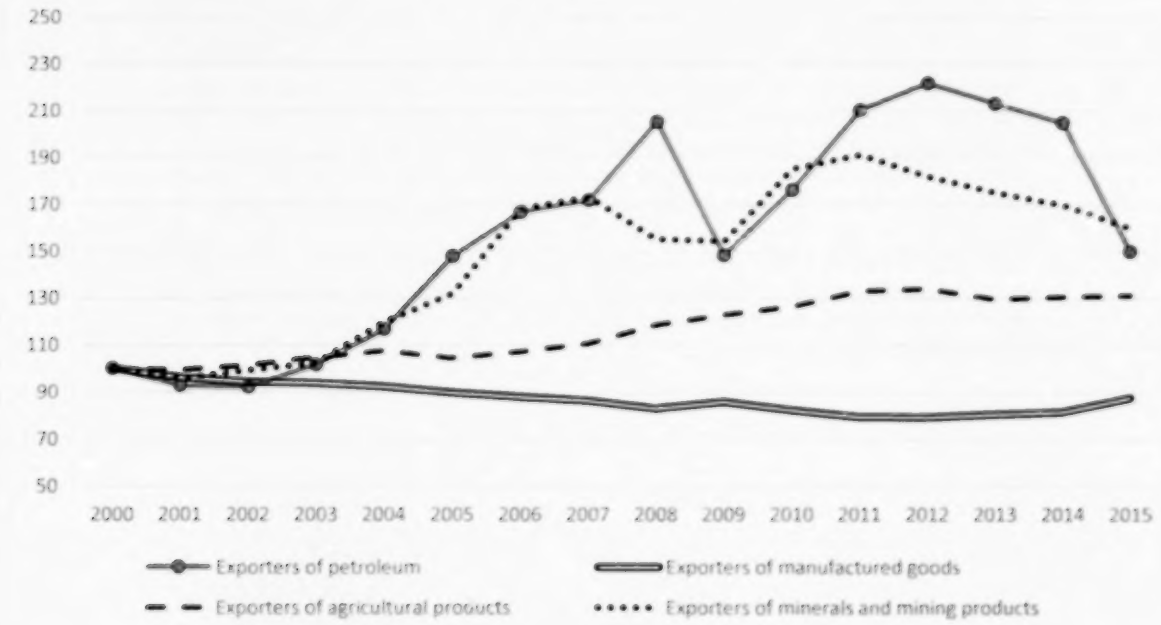
[3] Since 2011, oil exporters experienced a 21 per cent decrease in terms of trade. See World Bank, "Commodity markets outlook", January 2017. Available from http://www.worldbank.org/en/research/commodity-markets.

Figure 1
International commodity price indices, monthly, January 2000 to December 2016



Source: UNCTADStat.
Note: The manufactured goods index is based on unit values of developed countries exports.

Figure 2
Terms of trade indices by selected groups of exporters, 2000-2015



Source: UNCTADStat.

B. A return to unbalanced trade?

5. The effects of the trade slowdown differ across regions. Some countries were able to maintain, or even expand, their exports, while others, in particular commodity exporters, had to cope with a dramatic drop in export revenues. Other economies that were more diversified or specializing in exports of commercial services were less exposed to the global slowdown. As a result, trade balances reacted very differently. Table 2 presents the evolution, in nominal terms, of merchandise trade flows (imports plus exports), which represent approximately 80 per cent of world trade, and trade balances (exports minus imports, as a percentage of total trade).

Table 2
Annual growth rate of merchandise trade and trade balances by region, 2011-2016

(percentages and annual growth rates based on nominal quarterly values)

	Average annual growth rate of trade (imports plus exports, nominal United States dollars)						*Average quarterly net merchandise trade balance (X-M) (X+M)*					
	2011	*2012*	*2013*	*2014*	*2015*	*2016[a]*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016[a]*
World[b]	19.7	0.7	2.0	0.5	-12.8	-3.2	-0.9	-0.7	-0.9	-0.6	-0.7	-1.1
North America[c]	15.9	3.6	1.0	3.2	-6.2	-3.1	-15.2	-14.8	-14.5	-13.6	-13.7	-15.6
South and Central America	26.0	1.1	0.4	-4.8	-18.9	-10.5	0.9	2.6	0.6	-1.9	-3.6	-6.9
Europe	17.8	-3.5	3.1	0.8	-12.9	-0.1	-2.3	-2.1	-1.4	0.2	-0.1	0.4
Commonwealth of Independent States	32.7	3.8	-0.8	-8.4	-32.7	-10.3	16.5	17.5	15.6	14.1	17.0	18.2
Africa	23.2	0.3	-2.7	-1.1	-20.7	-10.6	0.5	1.8	-1.5	-5.4	-8.6	-17.4
Middle East	27.2	4.8	-1.1	-2.0	-21.5	-9.6	29.8	38.6	36.7	33.6	29.4	11.8
Asia[b]	20.4	3.3	2.5	1.0	-10.7	-4.3	1.9	-0.1	-0.9	-0.5	0.9	4.5
Developed Asia	17.2	0.6	-6.9	-2.7	-15.5	-1.8	4.5	-0.2	-4.1	-5.0	-5.8	-2.7
Developing Asia	21.2	4.0	4.6	1.7	-9.7	-4.7	1.3	0.0	-0.2	0.4	2.2	5.8
China	22.9	6.2	7.7	3.0	-8.5	-6.9	5.9	4.1	5.7	6.2	8.6	15.0
Other developing Asia	20.2	2.5	2.7	0.8	-10.8	-3.0	-1.4	-2.5	-4.0	-3.4	-2.2	-0.6

Source: Based on UNCTAD-WTO "Quarterly world merchandise imports by region and selected economies" database.

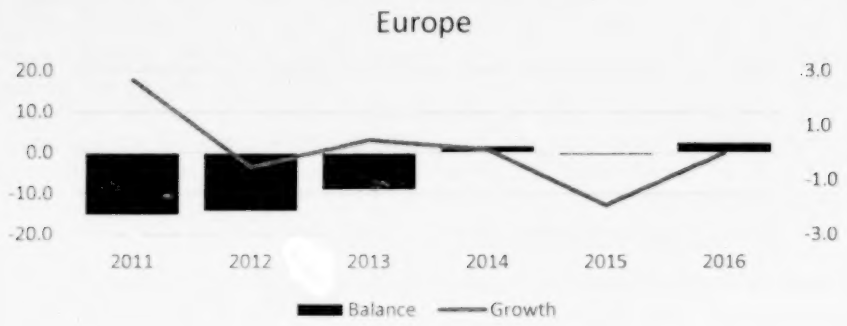
[a] Preliminary estimates.

[b] Includes significant imports for re-exports and intraregional trade.

[c] For trade analysis purpose, it includes the three countries of the North American Free Trade Agreement.

6. Demand for imports from European countries has been weak for several years, affecting intra-European Union trade in particular (see figure 3). The financial difficulties and low growth affecting the Eurozone economies have constrained demand, leading to high unemployment and reduced private spending. Due to weak European Union demand, Germany's exports were redirected to non-European Union trade partners and explain the rebalancing of Europe's trade, which gradually moved from a 2 per cent deficit to a surplus of less than 0.5 per cent, as below.

Figure 3
Merchandise trade and trade balance, Europe, 2011-2015



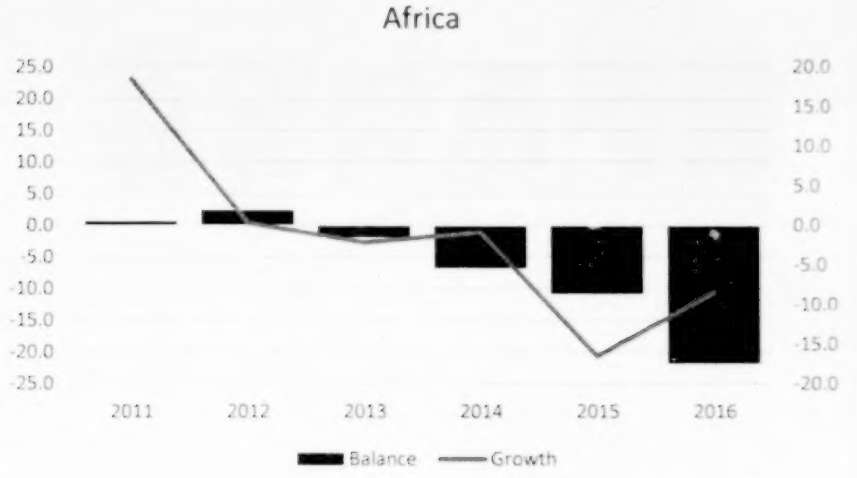
7. A similar but stronger pattern occurred in developing Asia (see figure 4), particular under the influence of China (see table 2 above). The Chinese demand for imports has fallen in nominal terms due to price decreases of imported commodities and longer-term movements of import substitution resulting from the upgrading of the Chinese industrial sector. Additionally, the Republic of Korea experienced a rapid growth in manufacture exports in 2015 while benefiting from low import prices. Despite some large Asian developing countries, such as Indonesia, being affected by falling commodity prices, on average the trade balance surplus of the region went up considerably in 2015 and 2016, reaching about 6 per cent of trade flows.

Figure 4
Merchandise trade and trade balance, developing Asia, 2011-2015

8. The terms of trade shock experienced by commodity exporters has been widespread, encompassing high-income exporters (Gulf countries), large "emerging economies" (such as Brazil and the Russian Federation) and least developed countries (such as Angola). Lower royalties, often the main revenue source for such States, have constrained government spending, leading to recession-like effects on the wider economy.

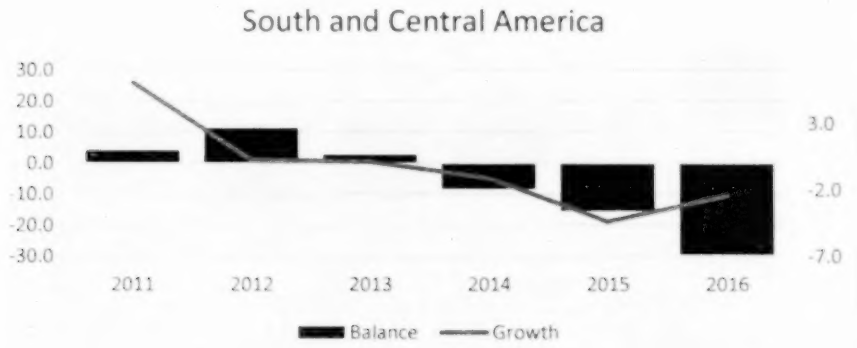
9. Africa was more acutely affected by the terms of trade shock owing to its generally higher dependence on commodity exports (see figure 5). The liquidity constraint on hard currency was felt in particular by the poorest countries. In Angola, the capacity to import was dramatically reduced due to hard currency shortages. Nigeria, the second-largest African economy, entered into recession in 2016, with growth contracting by 1.5 per cent.

Figure 5
Merchandise trade and trade balance, Africa 2011-2015



10. Even for more diversified exporters, the shock was extreme: South America (see figure 6), which had increased its reliance on primary exports during the commodity super-cycle, has been facing recession-like pressures on the external sector, which trickled down to the rest of the domestic economy.

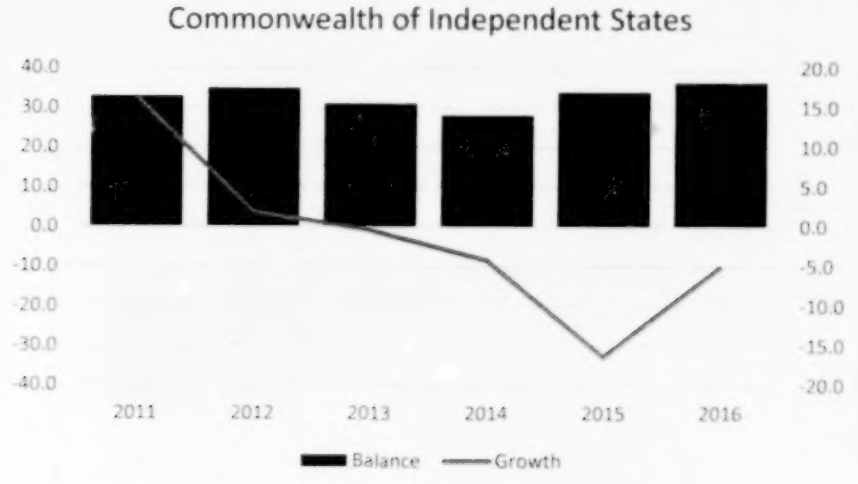
Figure 6
Merchandise trade and trade balance, South and Central America, 2011-2015



11. The case of the Commonwealth of Independent States (CIS) diverges from the other commodity exporters. Despite the decline in commodity prices, the region maintained a large trade surplus: above 15 per cent in 2015 and 2016 (see figure 7). This is owing to the large adjustment in imports observed in 2015 (see table 1

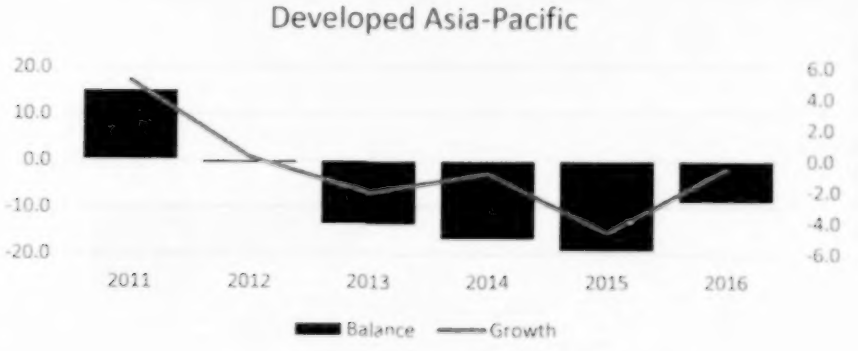
above), which led to a combined drop of exports and imports of 30 per cent, the largest observed across regions. Furthermore, the low commodities prices have yet to induce a higher demand for these products.

Figure 7
Merchandise trade and trade balance, Commonwealth of Independent States, 2011-2015



12. In developed Asia and Pacific (see figure 8), trade recoveries did not materialize into a significant surge of imports, and net merchandise demand emanating from this region decreased in 2016. For example, Japan shifted from a negative to a positive trade balance between 2015 and 2016.

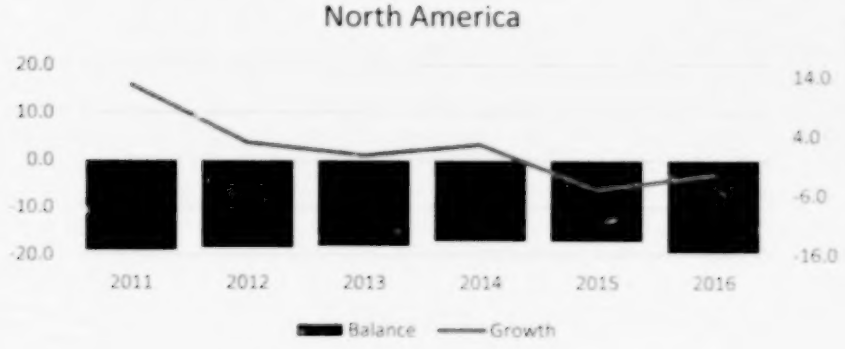
Figure 8
Merchandise trade and trade balance, developed Asia-Pacific countries 2011-2015



13. Indeed, there were few positive demand-side signals from any region in 2015-2016. In North America, the relative trade deficit increased in the context of lower trade. This result reflects two different yet interrelated trends (see figure 9). Even as United States employment grew strongly, demand for imports remained weak during most of 2016, resulting in a 1.6 per cent decrease in the trade deficit of goods. On

the contrary, Canadian and Mexican net imports increased, mainly as a result of lower exports to the United States of America.

Figure 9
Merchandise trade and trade balance, North America 2011-2015



C. Trade in services

14. Trade in commercial services (about 22 per cent of total trade) seems to be less volatile than merchandise trade, but remains correlated due to common exposure to the global business cycle through demand and exchange rate effects. Trade in commercial services suffered a drop of 5 per cent in 2015, remaining relatively stable during 2016. Increasingly, countries seek to capitalize on services economy and trade to support structural transformation to attain inclusive growth and sustainable development.[4] Moreover, the achievement of many sustainable development targets requires universal access to essential and infrastructure services, including health, finance, energy, transport and telecommunications.

Table 3
Trade in commercial services by region, 2011-2016
(percentage change based on nominal values)

	Exports of commercial services						*Imports of commercial services*					
	2011	*2012*	*2013*	*2014*	*2015*	*2016[a]*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016[a]*
World	12.2	2.7	6.6	6.3	-5.5	0.1	11.9	3.6	6.1	7.3	-5.9	0.5
North America	11.2	4.6	6.8	5.5	0.1	0.5	7.9	4.5	2.7	3.6	-0.3	2.2
South and Central America	14.4	5.8	2.4	2	-4.4	-0.1	19.8	6.5	5.9	1.2	-11.8	-4.8
Europe	12.6	0	8.1	7.3	-8.9	-0.3	10.3	-1.1	7.9	7.2	-7.2	1.1
Asia	12.7	5.3	4.7	6.9	-3.2	0.9	14	8.3	4.9	11	-3	2.6
Other regions[b]	8.8	6.5	5	1.4	-3.4	-0.6	15.6	8	6.1	5.2	-11.8	-7.4

Source: Estimates based on UNCTAD-WTO-International Trade Centre quarterly short-term statistics.
[a] Preliminary estimates.
[b] Includes countries from Africa, CIS and the Middle East.

[4] TD/B/C.I/MEM.4/14.

15. Africa, the Middle East and CIS countries had the largest declines (0.6 per cent for exports and 7.4 per cent for imports), deepening the 2015 slump (see "other regions", table 3). Declines in transport, financial services and information technology-related services in the United States of America caused North American exports to contract. The United States surplus in services trade fell by 5.5 per cent owing to lower exports and higher import demand for travel, including tourism and education. Europe's exports stagnated, owing to declining transport, travel and financial services exports, as did those of South and Central America, despite rising travel earnings, the most important services category for the region. In Asia, robust travel and high-tech services growth offset dropping transport receipts, and total commercial services exports rose 1 per cent. Asia also experienced the most rapid rise in services imports, as the region's payments for other commercial services and travel abroad increased. For the fourth consecutive year, Middle Eastern countries recorded the highest exports growth (4 per cent), thanks to the air transport sector, tourism and information technology services.

D. Trade trends in least developed countries

16. Sustainable Development Goal 17, target 11, is aimed at doubling the least developed countries' share in global exports by 2020. However, the trade slowdown registered since 2011 hinders efforts to achieve this target. Least developed countries' merchandise exports decreased by 6 per cent in 2016, declining more rapidly than world exports. The 2015 figures were even grimmer, with such exports dropping by 24 per cent.

17. This performance reflects the dependence of least developed countries on the exports of fuels and mining products, which continued to be hit by low prices and declining demand. Indeed, only least developed countries that were exporters of manufactured goods achieved positive growth in 2016. These comprised mainly Asian least developed countries specializing in textile and apparel, where exports increased by 9 per cent.

18. In 2016, merchandise imports to least developed countries decreased by 3 per cent, following a 10 per cent decline in 2015. This resulted in a record merchandise trade deficit of $83 billion in 2016, compared with $81 billion in 2015. Even oil exporters, the sole least developed countries to regularly register trade surpluses, recorded deficits in 2015 and 2016.

19. The services exports of least developed countries also declined, by 3 per cent in 2015 and 4 per cent in 2016. African least developed countries registered the sharpest decline over 2015 and 2016 (about 5 per cent yearly). Imports of services by least developed countries followed a similar trend, with imports decreasing 6 per cent in 2016, following a 15 per cent drop in 2015.

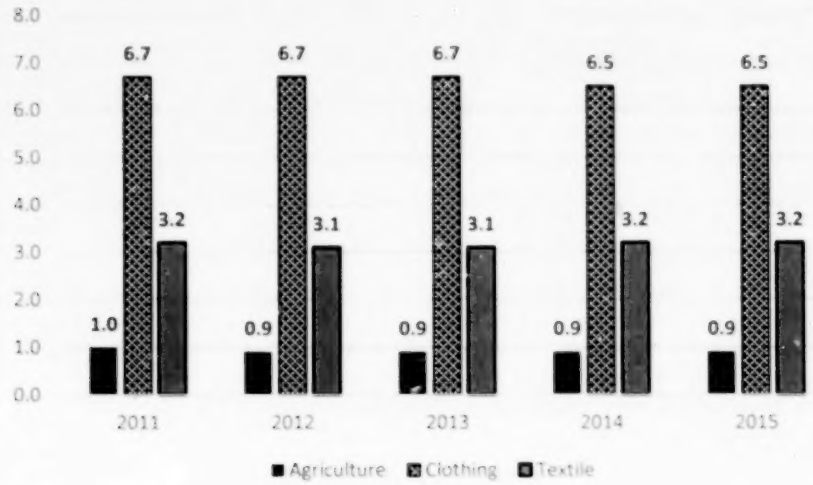
20. As a result, the share of least developed countries in world merchandise exports stood at slightly above 0.9 per cent in 2016. Their share in exports of commercial services was even smaller, at 0.7 per cent. Continued sluggish world trade hinders the ability of the least developed countries to achieve Sustainable Development Goal 17, target 11, and is further compounded by low preferential market access in some key sectors.

21. Sustainable Development Goal 17, target12.1, calls for a timely implementation of duty-free and quota-free market access for all least developed countries. Import tariffs applied by developed countries to products originating in least developed countries have remained stationary, below 2 per cent on average. However, in key sectors such as clothing, the average duty is higher owing to the exclusion of apparel from the United States Generalized System of Preferences

scheme for producers (such as Bangladesh and Cambodia) that register a comparative advantage over other least developed countries.

22. Preferential market access being granted by developed — and some developing — countries is not enough to enable least developed countries to diversify their exports, if not accompanied by national and international efforts to enhance trade capacities and to exploit market access opportunities. Trade and transport facilitation is particularly important when one of the main options for export diversification into manufacture is joining regional and global value chains.[5] Actually, the relatively better export performance by Asian least developed countries since 2011 is due to their diversification through the global textile and apparel value chains.

Figure 10
Average tariffs applied by developed countries to imports from least developed countries



Source: International Trade Centre/UNCTAD/WTO contribution to the report of the Secretary-General on the Sustainable Development Goals, March 2017.
Note: Ad valorem tariffs in percentage.

E. Market access and trade policy

23. Protectionism is often seen as an easy and popular response to recessions at home, even if it usually proves to be misguided. Indeed, to avoid the type of beggar-your-neighbour policies that wrecked the world economy in the early 1930s, the Group of 20 (G-20), at its April 2009 meeting, reaffirmed its commitment to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports.

24. However, trust in an open, multilateral trading system gradually eroded. The WTO Doha Development Round of multilateral trade negotiations stalled with the global 2008-2009 crisis, and the December 2015 WTO ministerial meeting ended

[5] H. Escaith and B. Tamenu, "Surfing on the tide? Least-developed countries trade during the great global transition", *Theoretical and Practical Research in Economic Field*, Vol. V, (summer 2014).

without a reaffirmation to conclude the 14-year-old Round. In March 2017, less than 10 years after their commitment, G-20 finance ministers noted the importance of trade to the global economy, yet omitted language vowing to "resist all forms of protectionism".

1. Regulatory measures and non-tariff measures

25. Non-tariff measures are estimated to be two to four times more restrictive than the tariffs currently applied. In particular, the agricultural exports of low-income countries face ad valorem equivalents of over 20 per cent.[6] Eliminating the distortionary trade effects of non-tariff measures would increase exports by least developed countries to G-20 countries by approximately $23 billion.[7]

26. Available figures send mixed signals on the recent evolution of trade policies. After a peak in 2011 and a rebound in 2015, the frequency of application of restrictive measures[8] stabilized at about 15 new measures per month in 2016 (see figure 11). While this represents a reduction compared to the 2015 peak, few of the previous measures were removed, and the overall stock of non-tariff measures has increased by almost 17 per cent from 2015. Similarly, trade-remedy investigations for 2016 were the highest, while trade-remedy terminations were the lowest since 2009. As a result, the number of ongoing investigations increased. A WTO report on trade measures implemented by the G-20 countries confirms this trend.[9] The number of new trade-restrictive measures implemented by G-20 countries between October 2016 and May 2017 is slightly higher than in 2016, but remains below the longer-term trend observed from 2009-2015. At the same time, the new trade-facilitating measures remain in line with the declining trend observed in 2016.

27. The use of regulatory measures is likely to increase as countries seek to achieve the social and environmental Sustainable Development Goal targets. Transparency, good regulatory practice and regulatory convergence, particularly towards international standards, are needed to avoid undermining the economic pillar of sustainable development and to reduce trade costs.[10]

[6] UNCTAD, "Non-tariff measures to trade: economic and policy issues for developing countries", 2013. Available from: http://unctad.org/en/PublicationsLibrary/ditctab20121_en.pdf.

[7] A. Nicita, and J. Seiermann, "G20 policies and export performance of least-developed countries", 2016. Available from: http://unctad.org/en/PublicationsLibrary/itcdtab77_en.pdf.

[8] Since 2008-2009, the primary WTO monitoring and surveillance mechanism is based on periodic trade policy reviews.

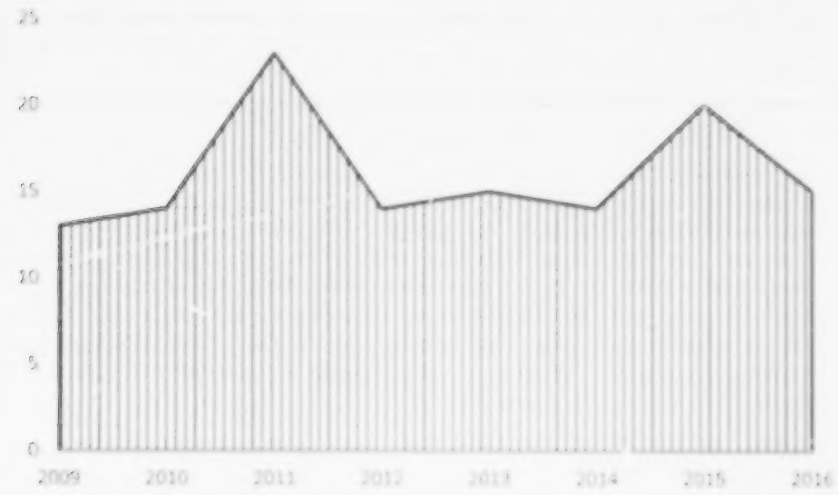
[9] Available from: https://www.wto.org/english/news_e/news17_e/g20_wto_report_june17_e.pdf.

[10] Ongoing UNCTAD analysis estimates product price increases due to regulatory measures can be reduced by 20 to 30 per cent through regulatory convergence.

Figure 11

Trade-restrictive measures, excluding trade remedies, 2009-2016

(average per month)



Source: WTO secretariat

Note: Figure for 2016 is preliminary, based on figures as of October 2016.

2. Trends in trade policy

28. Despite setbacks, multilateral trade negotiations are progressing in a more focused and less ambitious manner. Notable for its expected economic impact, the WTO Agreement on Trade Facilitation entered into force in February 2017 and contains provisions for expediting international merchandise movement, including customs administration clearance.[11] The expansion of the Ministerial Declaration on Trade in Information Technology Products, agreed at the Nairobi ministerial conference in December 2015, is on track to secure full implementation.[12] The success in this sectoral agreement, as well as the landmark signature of the Paris Agreement on climate change at the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, paved the way for a new round of negotiations on an environmental goods agreement. A total of 46 WTO members have joined the negotiations, which seek to eliminate tariffs on important, environment-related products.[13] Negotiations on services, previously sidelined during the Doha Development Round, were taken out of the multilateral stage and moved into the Trade in Services Agreement, although that is not formally a WTO negotiation.[14]

29. Regional trade agreements have proliferated in past decades. As of the beginning of 2017, the WTO has been notified of over 600 such agreements, and more are currently under negotiation. With a conclusion of the regional trade

[11] The WTO World Trade Report 2015 states that successful implementation of the Agreement on Trade Facilitation would boost developing country exports by up to $730 billion per year.

[12] The expanded Ministerial Declaration on Trade in Information Technology Products eliminates tariffs on additional products valued at over $1.3 trillion in annual trade.

[13] The participants in the negotiations on an environmental goods agreement account for a large majority of global trade in environmental goods, representing a critical mass, which could ensure that the benefits of an agreement are extended to the entire WTO membership.

[14] If the Trade in Services Agreement reaches a critical mass of signatories, for example, it could be reinstated as a multilateral agreement.

agreement between Japan and Mongolia, the WTO reached a milestone: all WTO members now participate in at least one regional trade agreement.

30. Regional trade agreements have, however, faced new obstacles — Brexit may represent the largest of these.[15] The Comprehensive Economic and Trade Agreement between Canada and the European Union faced last-minute problems before being accepted by the European Parliament in February 2017. In early 2017, the United States of America withdrew from the Trans-Pacific Partnership and is preparing to renegotiate the North American Free Trade Agreement.[16]

31. Nevertheless, regional integration will continue to play a huge role in determining the economic futures of billions of people in the foreseeable future, especially in the developing world. The global spotlight has turned to the ASEAN-led Regional Comprehensive Economic Partnership. Strategically, how the Partnership evolves will go far in determining trade's development role across the wider Asia-Pacific region. Similarly, the One Belt, One Road initiative of China is likely to completely transform trade across Asia in the coming decade. This $900 billion project would involve the development of economic corridors that could facilitate energy and industrial clusters.

32. Further, African Union member States have committed to establishing the African Continental Free Trade Area by the end of 2017, with an important milestone reached during this year: the adoption of the modalities for negotiations on tariffs and services.[17] Provided soft and hard investment programmes in accompanying trade and transport facilitation are implemented, the Area could increase intraregional trade growth dramatically. Its implementation is expected to pave the way for the industrialization, export diversification and economic transformation necessary for African countries to achieve the ambitious targets of the 2030 Agenda for Sustainable Development and Africa's own Agenda 2063. There is much room for gains for African trade integration, as the share of intraregional exports-imports in total world trade in 2015 was about 15 per cent in developing Africa, compared 19 to 20 per cent in developing America and 48 to 51 per cent in developing Asia.[18]

[15] For a review of trends in regionalism, see TD/B/64/10.

[16] Both Canada and Mexico have expressed willingness to renegotiate the North American Free Trade Agreement.

[17] UNCTAD, "Elements of modalities for the African Continental Free Trade Area market access negotiations on tariffs", 2015. Available from: unctad.org/en/PublicationsLibrary/ditc2015misc3_en.pdf.

[18] *Economic Development in Africa Report 2013* (United Nations publication, Sales No. E.13.II.D.2).

Box

Evolution of South-South trade

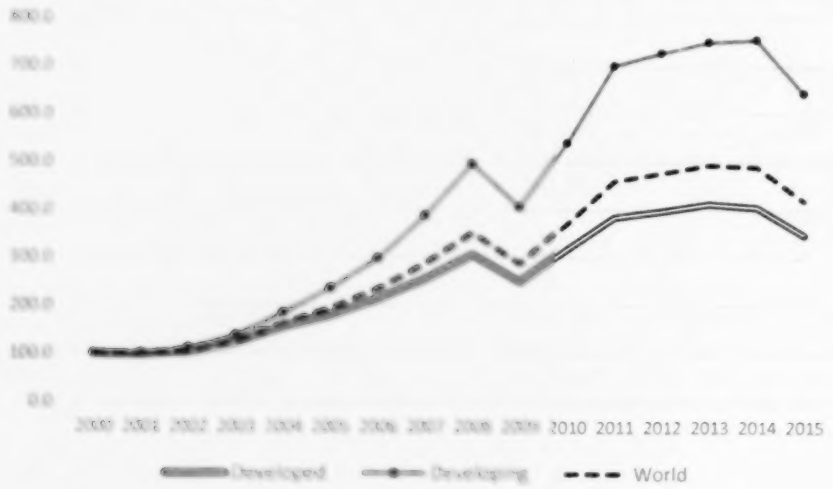
The last two decades have been characterized by rising interdependence among developing countries' economies, especially on a regional basis. In the decade preceding the global crisis, South-South trade rose from one fifth to approximately one fourth of world trade, making it approximately equal to North-North trade. Since 2008, developing countries as a whole have been exporting more to the South than to the North.

With the exception of 2009, when South-South trade collapsed together with overall trade, South-South trade grew at rates of more than 20 per cent per year from 2003 to 2011. However, since 2012, the growth in South-South trade has slowed down considerably, affected, among other things, by the decline in the price of commodities. In 2014, South-South trade growth stalled, while preliminary estimates indicate that, in 2015, it fell by about 15 per cent, a decline slightly deeper than that in North-South trade flows, which declined by 13 per cent.

33. As of 2015, trade among developing countries (South-South) was in the order of $5 trillion, up from less than $1.5 trillion in 2000. Brazil, China and India now account for a quarter of Africa's total exports, up from a little over 10 per cent in 2005. Currently, South-South trade for Asia accounts for 54 per cent of total merchandise exports and 53 per cent of imports, up from 27 per cent and 34 per cent, respectively, in the early 2000s.

Figure 12

South-South trade, 2000-2015



Source: World Bank.

Note: Based on exports of merchandises by income group.

III. Trade as a target for populism, nationalism and unilateralism

A. Back to a "new normal" of slow trade growth?

34. After several decades of trade increasing more rapidly than the growth in global GDP, the global trade-to-GDP ratio rose from 19 per cent in 1980 to 31 per cent in 2008. Since then, it has fallen to less than 25 per cent in 2016. Discussions of this trend are the subject of a dense literature,[19] which explores the cyclical factors that constrain demand, in particular for imports: the post-global crisis recession (especially in Europe), increasing unemployment, and public and private debt overhangs, resulting in weak consumption and investment.

35. The slowdown may also reflect the stabilization of emerging economies, which experienced the rapid integration of Eastern Asia and Eastern Europe into the global industrial economy. Data shows this trend was first temporarily interrupted by the global financial crisis, but the fragmenting international production via global value chains continued until 2011. The most recent data on the period from 2011 to 2014 indicate that the process of international fragmentation probably stalled in recent years.[20]

36. Furthermore, the rise in income that has accompanied the process of increasing globalization has gradually shifted household demand towards less tradable products such as housing, education and health services.[21] Since the financial crisis, real wages for unskilled labour in many developed countries have been stagnant, and many jobs in industry and manufacturing have been lost, despite the talk of recovery. Trade openness is no longer seen by some as the win-win strategy it was when trade was rapidly growing. A rise in protectionist policies and increased government support for domestic industries has been observed in response to sluggish trade growth and world GDP growth.

B. Is trade really the problem?

37. Trade is a necessary but not sufficient condition for inclusive and sustainable development. Although trade has consistently delivered net benefits, actual gains will accrue in an uneven manner across sectors, through supply chains and between socioeconomic groups. Despite a longstanding recognition of this imbalance, little has been done to effectively implement mechanisms to mitigate its effects.

38. In these circumstances, trade is being used as a scapegoat. The downturn in employment opportunities in manufacturing and industrial sectors has been blamed largely on offshoring and increased competition from cheaper imports. Accordingly, the rhetoric regarding the multilateral trading system has shifted significantly, which belies a lack of trust in trade and trade policy. A lack of inclusiveness of trade, perceived or real, has led to an erosion of the legitimacy of trade policy.

39. It is readily acknowledged that trade benefits accrue unevenly and that increased competition has led to declines in the numbers employed in some

[19] For a review, see B. Hoekman, ed., *The Global Trade Slowdown: A New Normal?* Available from: www.voxeu.org/content/global-trade-slowdown-new-normal.

[20] M. Timmer, B. Los, G. de Vries, and R. Stehrer, "An Anatomy of the Global Trade Slowdown based on the WIOD 2016 Release", Groningen Growth and Development Centre research memorandum No. 162 (University of Groningen, Netherlands), 2016.

[21] H. Escaith and S. Miroudot, "World Trade and Income Remain Exposed to Gravity", in B. Hoekman, ed., *The Global Trade Slowdown: A New Normal?*, pp 127-160. Available from: www.voxeu.org/content/global-trade-slowdown-new-normal.

industries in developed countries. Various studies[22] highlight the importance of China's emergence as a global exporter as a determinant of United States unemployment, but only 20 per cent of manufacturing job losses in the period 1999 to 2011 is attributed to this factor. For the period 2000 to 2010, another study[23] finds that, of the 5.6 million manufacturing jobs lost, 85 per cent could be attributed to productivity growth and 13 per cent to trade. The study estimates that more than 8 million additional manufacturing workers would be needed if United States productivity levels of 2000 were applied to output from 2010.

40. Technical progress and automation have reduced demand for low- and medium-skilled workers, suppressing wage growth for affected industrial and manufacturing workers and creating much of the hardship and displacement experienced by them. With a new industrial revolution in process, and despite manufacturing output growth in several developed countries, there appears to be much scope for this process to continue. One study published in 2017[24] estimates the 47 per cent of United States workers had jobs exposed to high risks of future automation. Further studies make equivalent estimates for the United Kingdom of Great Britain and Northern Ireland (35 per cent) and Japan (49 per cent). Simultaneously, the productivity and income of highly skilled employees have increased, leading to wider income gaps.

41. Many people are left behind owing not to trade but to a lack of economic opportunity and social mobility. Productivity gains have been the primary cause of diminished employment in industrial and manufacturing sectors, with trade playing a secondary role. Fortunately, the resolution of these employment issues, whether caused by trade or technology, are broadly similar. Well-implemented programmes aimed at helping workers to be reskilled and to relocate to pursue the benefits economic of growth, openness and technological advances should be priorities for domestic policymakers.

42. Misidentifying trade as the main driver these trends poses the risk of policy actions being implemented that cut off trade benefits without addressing the actual reasons for jobless growth. While trade does contribute to job losses in some sectors, limiting trade opportunities and shielding firms from competition only ensures they will lack access to new technology, innovations and progress as investment migrates to more competitive markets. Despite the unevenness of trade benefits, studies show that trade may assist the poor and bring about net benefits. A recent study[25] highlights the pro-poor impact of trade, represented by lower consumer prices and increased choice, especially for highly traded goods such as food and clothing. Another[26] finds that in the long run, trade with China increases welfare in the United States of America by 6.7 per cent, and that even in the short run, and despite competition from cheaper imports, overall welfare thus increases by 0.2 per cent, with gains across all states.

[22] D. H. Autor, D. Dorn and G. H. Hanson, "Untangling trade and technology: evidence from local labour markets", *The Economic Journal*, Vol. 125 (May 2015), pp. 621-646.

[23] Michael J. Hicks, and Srikant Devaraj, "The myth and the reality of manufacturing in America", Center for Business and Economic Research (Ball State University, United States of America) 2015. Available from: http://conexus.cberdata.org/files/MfgReality.pdf.

[24] Carl Benedikt Frey and Michael A. Osborne, "The future of employment: how susceptible are jobs to computerisation?", *Technological Forecasting and Social Change*, Vol. 114 (2017), pp. 254-280.

[25] Fajgelbaum and Khandelwal, "Measuring the unequal gains from trade", *The Quarterly Journal of Economics*, Vol. 131, 2016.

[26] Lorenzo Caliendo, Maximiliano Dvorkin and Fernando Parro, "The impact of trade on labor market dynamics", National Bureau of Economic Research working paper No. 21149 (Washington, D.C). Available from: www.nber.org/papers/w21149.

43. On a global scale, expansionary trade policies have resulted in both people and countries now being more interconnected and interdependent than ever. Between 1970 and 2015, trade as a share of world GDP has almost tripled, to approximately 28 per cent, or 43 per cent within the European Union. This has created scale economies, specialization and competition that have in turn led to controlled inflation, greater choice, increased product quality and lower prices for a new generation of global consumers.

44. Trade has also proved to be an excellent medium to leverage and promote economic growth, lifting approximately a billion people out of extreme poverty. As such, with continued evolution and improvement, trade, trade policy and the multilateral trading system can continue to deliver gains to the vast majority of people for many years to come.

C. Multilateralism as the first best option for the international trading system

45. At its core, multilateralism remains the first best option for an international trading system to act as a fundamental driver of economic and social transformation. It provides a framework of rules, regulations and guidelines to which all members should adhere, resulting in a level playing field that enables fair and open access to the international trading system for all nations; both rich and poor, large and small. The multilateral trading system also provides dispute resolution mechanisms that offer fairness and predictability and, more importantly, solutions to commercial conflicts.

46. United Nations Member States have repeatedly pronounced their commitment to promoting a universal, rules-based, open, transparent, predictable, inclusive, non-discriminatory and equitable multilateral trading system, consistent with the internationally agreed development goals, as provided today in Sustainable Development Goal 17, target 10.[27]

47. The multilateral trading system promotes reciprocity as a fundamental notion of international trade relations. Non-discrimination among trading nations, provided through a most-favoured-nation rule, is a primary principle of the modern system, with the ultimate goal of achieving freer trade. The most-favoured-nation rule ensures the system's integrity by providing equal rights to all parties, regardless of bargaining power, and constrains arbitrary behaviour and biased outcomes in competition for market access.

48. Economic globalization, through the expansion of free trade policies, has been changing the structure of many societies at an unprecedented speed. It creates new opportunities for some while bringing about dislocations for others, raising new risks for booms and busts, intensifying the problem of greater efficiency coexisting with greater inequality. Trade protectionism induced by a withdrawal from the commitments under the multilateral trading system cannot be a solution. Retracting from some of the largest multilateral trading blocs may risk diminishing the health of national economic performance, shrinking the breadth of consumer baskets and availability of modern services, and reducing inputs for production value chains. From a value-chain perspective, barring access to cheaper or more efficient imported inputs reduces the competitiveness of exporting firms at home. Whether and how countries in industrialized countries, emerging and developing countries and least developed countries manage the tensions that are produced by intensified

[27] See resolutions 70/187 and 71/214.

economic interactions will surely determine the scope and sustainability of economic globalization.

49. The solution to this dilemma should not be less trade, characterized by unilateralism and isolationism, but better trade, fashioned by the principles of inclusivity and equity. Trade alone, however, is not enough to enable countries to reach their economic and social objectives, and must be accompanied by a set of macroeconomic and sectoral policies in order to be inclusive and sustainable, and by social programmes in order to ensure fairness to those left behind.

50. On the contrary, protectionism has repeatedly proven to be a catalyst for breeding resentment among countries, which serves to strain international relations, leading historically to economic, political and even military confrontations. It is important for the international community to acknowledge this sentiment and address its causes. While trade has proven to be an enormous force for development and economic empowerment, the case in its favour must be expressed coherently and ardently by national governments and international institutions by highlighting the principle of non-discrimination through multilateralism.

51. Moreover, most emerging issues can no longer be solved unilaterally. The degradation of our oceans or the causes and consequences of climate change that threaten the ability of large numbers of people to lead dignified lives cannot be addressed by anything other than world consensus. The issues require concerted and collective actions and global implementation. The multilateral trading system provides such a framework and a forum. Indeed, despite stalemates in some areas, agreements on a wide range of issues, such as trade facilitation, information technologies and export subsidies have been consistently achieved at WTO.

IV. Trade for development: creating opportunities in uncertain times

A. Revitalizing trade policy and the multilateral trading system

52. Against the backdrop of weak trade and economic recovery following the great recession, trade policy should not regress to inward-looking, protectionist approaches. On the contrary, a coherent approach would enable international economic and trading environment for all countries to benefit from trade growth according to their competitive strengths and participation in world trade.

53. In the face of constantly changing and evolving challenges in the world economy, including the resurgence of nationalist sentiment backed by anti-trade rhetoric, international trade policies should be aimed at increasing social welfare and achieving inclusive economic growth and the Sustainable Development Goals by means of international trade and its related tools and instruments. In terms of regional trade agreements, an evolved trade policy stance in this regard would not encourage economically weaker countries to eschew multilateralism in favour of bilateral trade deals, as the latter are likely to represent unfair trade deals. While the allure of preferential access to a major economy may entice smaller countries to open up to such deals, the medium- to long-term impacts on these countries could include losses in competitiveness, industrial output and jobs.

54. At the multilateral level, the conclusion of the Doha Development Round with important development outcomes, such as provisions on special and differential treatment, remains a major goal. Several key Doha Development Round negotiation subjects have also been identified in the 2030 Agenda for Sustainable Development,

such as the elimination of fisheries subsidies. WTO members are challenged to ensure concrete progress at the eleventh WTO ministerial conference.

55. Recent trade agreements have incorporated new issues, such as health and safety standards, intellectual property rights, environmental standards, gender equality and rules for trade in services, competition and foreign investment. Not only does the inclusion of such issues affect the way in which negotiations are carried out, but it also has discernible social effects. For example, the International Labour Organization highlights that trade agreements containing clauses to promote female labour strengthen social dialogue concerning labour conditions.

56. To ensure fair trade, agreements could be more readily broadened to contain measures designed to militate against particular factors that undercut domestic social arrangements. Some of these measures, such as anti-dumping and safeguard remedies, are already commonplace. Addressing the issue of trade flows that raise questions of distributive justice owing to, for instance, significant asymmetries in labour rights or environmental standards, would deny populists the opportunity to level more widespread criticisms at trade as a whole.

57. Furthermore, acknowledging participants' heterogeneity may not ensure that commitments are applied identically, but would reassure those who stand to lose out that the resulting competition is fair, while also achieving important goals. Whatever the nuances of a particular policy, it is essential that domestic policies represent a coherent and complementary set of measures (including standards on, inter alia, the environment, competition, consumer protection, labour and gender) that promote equitable, inclusive and sustainable outcomes.

58. Similarly, in order for the process of trade integration to be delivering not only in terms of economic gains but also in the broader terms of sustainable development, it is important that the multilateral trading system be increasingly characterized by institutional coherence among a network of cooperating transnational institutions, which deal in both hard rules and soft norms, guidelines and commitments. It remains vital that WTO, as the rule-making body, remain a fundamental hub in an interactive, cooperative multilateral trading system. At the same time, progress should be made in relevant international forums in advancing trade-enhancing strategies that address socioeconomic and development concerns such as poverty reduction, job creation, food security, gender equality, climate change and environmental sustainability.

B. Regionalism and development

59. Regional integration could play a critical role in coordinating and mainstreaming development initiatives in the context of the 2030 Agenda for Sustainable Development,[28] in particular by acting as catalyst to reduce trade barriers, implement policy reforms, decrease trade costs and increase developing countries' participation in regional and global value chains. Indeed, there is increasing acknowledgement of the significant gains in welfare that can be achieved through regional integration that incorporates the harmonization of legal, regulatory and institutional frameworks.[29]

60. Regional trade agreements can dramatically expand markets for smaller developing countries, increasing competition and boosting productivity and

[28] UNCTAD, *Economic Development in Africa Report 2016* (United Nations publication, Sales No. E.16.II.D.3), p.7.

[29] UNCTAD, *Economic Development in Africa Report 2015* (United Nations publication, Sales No. E.15.II.D.2).

innovation. In this context, given the implementation of holistic and integrated approaches required to build productive capacities, as highlighted in paragraphs 58 and 68 of the Nairobi Maafikiano, the emergence of regional value chains provides important opportunities, in particular as they represent stepping stones for the small firms that predominantly constitute the industrial and manufacturing sectors in many developing countries. Regional integration in the context of global value chains is likely to be the key to successful export-orientated growth and, accordingly, an instrument of development policy.

61. Comprehensive regional integration can serve as a path for harmonizing non-tariff measures, which are driven by non-trade policy objectives, such as quality and safety standards, and such measures are increasing. However, they have also a critical role in determining market access conditions, as compliance is often a sine qua non for exporting to developed countries' markets. The potentially negative effects of the cost of compliance may be reduced through harmonization (the creation of a common definition of both policy objectives and technical requirements) or mutual recognition (a reciprocal acceptance of the measures applied in both countries). The implementation of these processes is easier within the framework of regional trade agreements, owing to increased confidence among members and the provision of technical assistance for increasing compliance capacities.

62. In recent years, the pace of negotiations on sustainable development issues have progressed relatively more quickly at the regional level, with an increasing number of regional trade agreements incorporating provisions that serve to address environmental, social and developmental concerns. Particular prevalence has been achieved with the inclusion of gender mainstreaming in many contemporary regional trade agreements.[30]

63. As outlined by the Nairobi Maafikiano,[31] there is a need to ensure that deeper regional integration is not pursued at the expense of the multilateral trading system. Regional trade agreements should be consistent with, and should contribute towards, a stronger multilateral trading system, being open to incorporating existing and potential future multilateral obligations, and the provisions therein should remain coherent with the relevant commitments made under WTO.[32]

64. Increased regional integration can also provide a more stable foundation for the multilateral trading system by strengthening the bargaining power of developing countries in multilateral negotiations; opening additional channels of communication among developing countries; increasing knowledge of and confidence in the capacities available in developing countries; and encouraging policy coordination and coherence on issues relevant to developing countries.

C. Wider social safety nets

65. To properly address the grievances of those who lose out from trade and technological progress, appropriate mechanisms must design, finance, implement and enforce policies that properly compensate and reintegrate those who are affected. Many countries maintain social protection and retraining programmes, but in many cases, they have not been expanded to account for the past few decades of technological revolution and global trade expansion. By widening their scope to

[30] See TD/B/64/5.

[31] See TD/519/Add.2, para. 29.

[32] For example, article XXIV or the Enabling Clause of the General Agreement on Tariffs and Trade.

include elements related to mobility, housing, education, skills development and credit, these programmes may address the need for a more adaptable workforce that is capable of engaging in increasingly skilled, computerized or service-based employment. The International Monetary Fund, the World Bank and WTO have provided an overview and critique of different types of such programmes.[33]

66. Further, the introduction of new technologies may signal the end of abundant unskilled labour as a comparative advantage for labour-intensive manufactured goods. Many developing countries experience high demographic growth rates that require corresponding job creation rates. Investing in human capital through education and social programmes, as promoted by the Sustainable Development Goals, is also a priority for low and middle-income developing countries if they wish to diversify their exports towards manufactured goods.

D. The 2030 Agenda for Sustainable Development and implementation of Sustainable Development Goals

67. Ongoing changes and persistent weakness in international trade will affect development opportunities both in economic terms and in terms of the Sustainable Development Goals. The 2030 Agenda for Sustainable Development and the Goals include actions to create an environment conducive to global trade flourishing and should be taken up as the basis for the construction of future trade policy. In particular, Goal 17 specifically calls for the facilitation of the integration of poorer countries in the global economy, including by doubling least developed countries' share of global exports by 2020.

68. It should be noted that several Millennium Development Goals (MDGs) were achieved because their implementation period fell during a period of strong global economic growth and rapid integration of many developing countries into the global manufacturing economy. The Sustainable Development Goals, while necessarily more ambitious than the MDGs, are facing a more uncertain economic and geopolitical environment. Considering the recent trends in international trade and economic growth, it is likely that the achievement of the Sustainable Development Goals will encounter some headwinds.

69. Furthermore, it is often feared that, following the significant progress on trade and market access realized under the MDGs, trade has taken a backseat in contemporary development strategy. Today, tariffs applied by developed economies on many developing and least developed countries are quite low, and the average tariffs levied on their key products, which were addressed in an MDG target, have not changed significantly in recent years. This is a success of the MDGs, but as noted above, the absence of new trade initiatives represents a crisis of sorts in the multilateral trading system.

70. Much remains to be done. The import tariffs applied to key sectors remain high, owing to the exclusion of apparel from the United States Generalized System of Preferences scheme for Asian least developed countries such as Bangladesh and Cambodia. Most labour-intensive exports from least developed countries to other developing countries do not benefit from preferences, with some important exceptions.[34] In addition, non-tariff measures have proliferated and pose significant

[33] International Monetary Fund, World Bank and World Trade Organization, *Making Trade an Engine of Growth for All: the Case for Trade and for Policies to Facilitate Adjustment* (April 2017). Available from: www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/08/making-trade-an-engine-of-growth-for-all.

[34] China, Chile, India, the Republic of Korea, Thailand and Turkey have announced that they have implemented special treatment for imports from least developed countries.

hurdles to global trade. South-South least developed country exports remain very concentrated in fuels and minerals, and there is great potential for diversification into more labour-intensive products such as food or light manufacture.

71. Under the current framework, the achievement of the Sustainable Development Goals is largely within the domain of national policies. However, while countries remain first and foremost responsible for their own development strategies, appropriate trading rules can support these strategies and provide a framework for long-term objectives. Trade rules could be designed to: reduce trade policy uncertainty; promote the structural transformation of low-income and/or commodity-dependent developing countries; devise regulatory measure and standards (including in the areas of health, environment and competition policy) that enhance and not undermine the trade flows of developing countries; and put in place policy measures to achieve inclusive trade (such as for small and medium-sized enterprises, women, young adults and vulnerable people).

72. All things considered, the current global economic uncertainty and the need for more inclusive and sustainable development strategies require stronger policy commitments at both the national and international levels. As progress on the sustainable development agenda cannot be delayed, it is important that the trading system improve on delivery, not only in terms of economic growth but also in terms of inclusive and sustainable growth.

V. Conclusion

73. The prolonged post-crisis decline in world trade relative to GDP, which continued in 2015 and 2016, has directly affected the ability of countries across the globe to implement the Sustainable Development Goals, and has been accompanied by rising concerns about the impact of further trade openness, immigration and globalization as a whole. The performance of international trade in 2017 and beyond will be respond in particular to the possibility of increased policy uncertainty and of the implementation of inward-looking trade policies. These major concerns for the recovery of international trade must be addressed by the international community. Advancement of the WTO Doha Development Round agenda and progress on the development dimensions of the negotiations at the eleventh WTO ministerial conference would represent a much needed boost towards greater policy certainty and enhance the capacity of the multilateral trading system to contribute to sustainable development outcomes.

74. Trade policies should be devised so that trade fosters economic growth that is both inclusive and sustainable. Social and environmental concerns should be the object of more holistic policies that deal with both production and consumption patterns, such as regional and global value chains. In the policymaking process, trade-enhancing strategies must squarely address socioeconomic and development concerns such as poverty reduction, job creation, food security, gender equality and environmental sustainability. Above all, sustainable development, as represented by the achievement of the Sustainable Developments Goals, should be the focus of trade strategies.